

SALARIES AND EXPENSES

APPROPRIATION HIGHLIGHTS

			INCREASE + DECREASE -
ACTUAL 2004	ENACTED 2005	ESTIMATE 2006	2006 vs 2005
<hr/>			
(Dollars in Thousands)			

Funds Available:

OIG's primary goal in its strategic plan is to **"Reduce fraud in Single-Family Lending"**. OIG has given priority to audits of Single-Family loan origination abuses, rental assistance payment programs, and HUD fiscal systems. The overall objectives of OIG's planned audits in these areas are to aid HUD in making sure management reforms are effective and address Congressional and taxpayer concerns about program delivery and financial integrity. Detecting and preventing fraud, waste and abuse are integral components of this work. The scope of efforts expand on recent evaluations of HUD's management, audits of HUD program delivery, financial and management systems audits, and also reflect the President's Management Agenda (PMA). Another goal of OIG's strategic plan and goal of the PMA is reducing erroneous payments and fraud in rental assistance programs. By late fiscal year 2004, the Office of Investigation (OI) was dedicating approximately 49 percent of its resources to the Rental Assistance overpayments initiative. As of September 2004, approximately 25 percent of the OIG audit effort is dedicated to single-family audits. During fiscal year 2004, the Office of Audit (OA) reported over \$609 million in monetary results (ineligible costs, unsupported costs, and funds put to better use) based on audits in this area.

Office of Inspector General

Additional budget justification and estimates follow.

HUMAN CAPITAL

For fiscal year 2006, the OIG level will decrease by 10 full-time equivalents (FTEs) from fiscal year 2005. This decrease is needed to offset rising costs of operations to include salaries and benefits. The OIG is dedicated to assure that its staff has all the resources needed to accomplish the mission of reducing fraud, waste, and abuse in HUD programs and operations.

In past years, Congressionally mandated investigations of loan origination mortgage fraud consumed about 60 percent of the Office of Investigation (OI) resources. In fiscal year 2004, adhering to the President's Management Agenda of addressing Federal overpayments, HUD's goals and OIG's Strategic Plan to reduce Rental Assistance overpayments, the OIG initiated a nationwide plan to address processing errors and fraud in the Section 8 program. By late fiscal year 2004, the Office of Investigation was dedicating approximately 49 percent of its resources to the Rental Assistance overpayments initiative. OIG has intensified its training efforts in the Rental Assistance area for the Office of Audit (OA) and plans a focused audit effort in this area with a goal to complete 20 Section 8 reviews during fiscal year 2005. OI will identify 22 Public Housing Authorities (PHAs) for specific Section 8 investigations during fiscal year 2005. Single family mortgage fraud cases fell to about 31 percent of OI's work. As of September 2004, approximately 25 percent of the OIG audit effort is dedicated to single-family audits. Audits completed during fiscal year 2004 in this area have reported over \$609 million in monetary results (ineligible costs, unsupported costs, and funds put to better use.

The FHA losses in fiscal year 2004 were \$1.7 billion. In fiscal year 2004, OIG had approximately 36,000 mortgages valued at almost \$1 billion under investigation.

In recent years, the OIG has refocused its investigative efforts from violent crime activities as mandated by Congress to investigations involving FHA single-family mortgage fraud, including property flipping schemes and predatory lending practices; rent subsidy overpayments; troubled housing authorities; and fugitive felons receiving benefits from HUD programs.

In support of this strategy, specialized training classes have been developed to transition Special Agents from illegal drug and violent crime to FHA mortgage fraud, and to refresh Agents and Auditors who have not been recently involved in FHA mortgage audits or investigations. Training courses have been developed to assure all OIG Agents are trained to conduct Section 8 Investigations in support of the OIG Strategic goal of helping to reduce HUD's rental subsidy overpayments. The OI and OA have analyzed the delivery of HUD program funds nationwide and re-deployed FTEs to those areas of the country receiving the greatest HUD funding and where the potential for fraud, waste and abuse is highest.

Office of Inspector General

FUNDING BY OBJECT CLASS

The following table summarizes this request by object class.

	ACTUAL	ENACTED	ESTIMATE	INCREASE + DECREASE -
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006 vs 2005</u>
		(Dollars in Thousands)		
Personal Services	\$71,952	\$73,752	\$75,528	+\$1,776
Travel and Transportation of Persons	4,846	4,991	4,791	-200
Transportation of Things	68	173	173	...
Rent, Communications, and Utilities	8,473	8,727	7,641	-1,086
Printing and Reproduction	60	53	53	...
Other Services	13,900	14,695	14,113	-582
Supplies and Materials	456	470	423	-47
Furniture and Equipment	283	290	261	-29
Insurance Claims and Indemnities	<u>284</u>	<u>17</u>	<u>17</u>	<u>...</u>
Total Obligations	100,322	103,168	103,000	-168

CHANGES FROM FISCAL YEAR 2005 TO FISCAL YEAR 2006

Descriptions of the various object classes, used by the OIG, are provided below. Overall, all object class categories reflect decreases below fiscal year 2005.

Personal Services

The fiscal year 2006 estimate of \$75.5 million reflects an increase of \$1.8 million above fiscal year 2005.

Travel and Transportation of Persons

The OIG staff travels extensively to carry out the audit and investigative responsibilities. The Audit staff travels to program participants and contractor offices to conduct project, contract, and financial audits, and evaluations of pricing proposals. Investigation staff requires extensive travel to interview witnesses and subjects of investigations, to examine records, to gather evidence through surveillance and other law enforcement activities, and to send employees to the Federal Law Enforcement Training Center (FLETC). The fiscal year 2006 estimate of \$4.8 million reflects a decrease of approximately \$0.2 million below fiscal year 2005.

Office of Inspector General

Transportation of Things

This object class includes the cost of reimbursement to OIG personnel who are authorized to move household effects or house trailers when transferred from one permanent duty station to another. The fiscal year 2006 estimate of \$0.2 million remains the same as fiscal year 2005.

Rent, Communications and Utilities

Funds under this object class are for rental costs, including space and equipment, as well as communication and utility services. Rent includes occupied space, security space, parking, and utilities. The fiscal year 2006 estimate of \$7.6 million reflects a decrease of \$1.1 million below fiscal year 2005.

Printing and Reproduction

Funds included in this object class are for the cost of printing and reproduction services, and related composition and binding operations performed by or through the Government Printing Office. Printing of the OIG Semiannual Report to the Congress is also covered under this classification. The fiscal year 2006 estimate of \$0.1 million remains the same as fiscal year 2005.

Other Services

A multitude of activities are funded under this object class, including professional training and development of OIG staff personnel, audit services, general support, and information technology (IT) maintenance and services. Audit services consist primarily of the cost of contracting for the audits of the FHA and Ginnie Mae financial statements.

OIG has various Interagency Agreements. One such agreement is with the Department of Justice for access to the National Crime Information Center (NCIC) data related to OIG investigative activities. The Office of Investigation incurs an annual assessment from the National Law Enforcement Communications Center (NLECC) operated by the Department of Homeland Security to support radio communications. OI is also obligated to support the President's Council on Integrity and Efficiency (PCIE) through annual training assessments to the IG Criminal Investigator Academy. OIG has agreements with the Bureau of Public Debt for personnel, contracting/procurement services, and background checks/investigations of OIG staff, and with the National Finance Center for payroll processing.

Funds from this object class are also used for the purchase of goods and services where source identity or investigative techniques require confidentiality and normal procurement procedures might compromise that confidentiality, e.g., undercover investigations.

Other funds in this object class include amounts for furniture and equipment maintenance, visual arts services, and other miscellaneous contractual requirements.

The fiscal year 2006 estimate of \$14.1 million reflects a decrease of \$0.6 million below fiscal year 2005.

Supplies and Materials

Funds budgeted under this category cover costs associated with the purchase of office supplies; training supplies; automation-related supplies; subscriptions to professional magazines, publications and research materials; ammunition; and other items that are generally consumed or expended within 1 year after purchase. The fiscal year 2006 estimate of \$0.4 million reflects a slight decrease below fiscal year 2005.

Furniture and Equipment

This object class includes the purchase of furniture and fixtures, general office equipment, and special equipment/weapons for law enforcement investigative activities. The fiscal year 2006 estimate of \$0.3 million reflects a slight decrease below fiscal year 2005.

Office of Inspector General

Insurance Claims and Indemnities

This expense category provides for payments made for or related to the repair or replacement of property, including loss by theft, or for personal injury deemed by law or regulation to be the responsibility of the OIG. This normally includes loss or damage to personal property being used for the benefit of the government. The fiscal year 2006 estimate remains the same as fiscal year 2005.

SCOPE OF ACTIVITY

The HUD Office of Inspector General is one of the original 12 Offices of Inspectors General designated by the Inspector General Act of 1978. The OIG oversees HUD's programs and operations with its audit and investigative personnel. While organizationally located within the Department, the OIG receives a separate appropriation for its activities. The OIG mission is to provide independent and objective reporting to the Secretary and to the Congress.

The OIG is the Department's primary source for obtaining independent reviews of the integrity, efficiency, and effectiveness of Departmental programs and operations. In directing these review activities, the OIG emphasizes both the detection and prevention aspects of these services within a comprehensive Departmental effort to attain improved management effectiveness. OIG also has authority to inquire into all program and administrative activities of the Department, and the related activities of all parties performing under contracts, grants, or other agreements with the Department. These inquiries may be in the form of audits, investigations, or other such reviews, as may be appropriate. To bring OIG more in line with other large departmental IGs, an Inspection and Evaluations Unit was formed in late fiscal year 2004 as a pilot. This unit was made permanent in 2005.

PERFORMANCE

For fiscal year 2004, OIG's results totaled \$3.29 billion, which includes recommendations on questioned costs identified in Audit Reports, investigative recoveries/receivables, and recommendations for funds put to better use. The cost of our operations over this time period was \$100.3 million, resulting in a return on investment (ROI) of approximately 33 to 1.

OIG has developed a Strategic Plan that further refines performance measures and identifies outputs and outcomes that will define a significant portion of OIG workload that is not set by legislation, Congressional, OMB or citizen requests.

WORKLOAD

The principal workload of the OIG consists of audit, investigative, and inspections and evaluations reviews. The Inspector General Act of 1978 and amendments of 1988 require the IG to conduct, supervise, coordinate, and provide policy direction for audits and investigations relating to Departmental programs and operations; and promote economy and efficiency in the administration of HUD programs and operations, and to prevent and detect waste, fraud, and abuse.

Investigative efforts on single-family cases in fiscal year 2004 resulted in 1,451 Judicial Actions, which equates to 24 percent of OIG total Judicial Actions for all HUD Programs; and \$334,987,356 Investigative Recoveries, which was 88 percent of OIG Total Recoveries for all HUD Programs. Investigative efforts on Section 8 and Public and Indian Housing cases in fiscal year 2004 resulted in 55 percent of OIG Total Judicial Actions for all HUD programs. For fiscal year 2004, program area case work is as follows: Community Planning and Development--9 percent; FHA Multifamily--15 percent; FHA Single-Family--27 percent; and Section 8 and Public and Indian Housing--49 percent.

The OIG strives to eliminate material weaknesses in HUD programs. For example, OI prepares Systemic Implications Reports (SIRs) that identify weaknesses that surface during the course of criminal, civil, or administrative investigations. SIRs are submitted to the appropriate HUD program office and provide program officials with sufficient information to determine whether changes in HUD program rules or regulations are required.

The OIG focuses its efforts on assisting HUD in ensuring management reforms are effective and addressing Congressional and taxpayer concerns about program delivery and financial integrity. Detecting and preventing waste, fraud, and abuse are integral components of

Office of Inspector General

this work. OIG's strategic plan is to compliment the Department's strategic plan. Both are geared to emphasize the President's Management Agenda (PMA), the GAO high-risk programs, and the material weaknesses and reportable conditions in the financial statements. OIG believes that concentrating on these will contribute to the improvement HUD's financial management systems, and reduce misuse of rental assistance and FHA mortgages. The goal is to help remove HUD programs from these high-risk designations, and help it become a more efficient and effective organization.

The OA will focus its efforts primarily on two areas. First, they will conduct audits that assist the Department in meeting the President's Management Agenda and new Presidential initiatives. Each audit will emphasize important issues such as human capital, financial performance, systems integration, or competitive sourcing. Second, they will focus on HUD's management challenges that are reported to the Congress semiannually. The challenges identified below are tied to HUD's management and performance issues related to the President's Management Agenda.

- Complete Departmentwide organizational changes.
- Improve financial management systems.
- Assure adequate and sufficiently trained HUD staff.
- Improve FHA single-family origination and real estate owned property oversight.
- Improve the effectiveness and efficiency of public and assisted housing program administration.

The OIG's overall objective in these five areas is to aid HUD in operating more efficiently and effectively by auditing various program operations and making comprehensive recommendations.

In order to harmonize OIG efforts and achieve the maximum output from OIG resources, members of the Audit and Investigation staff meet with HUD program officials monthly to discuss issues of concern, including those areas where OIG believes weaknesses exist. In addition, these OIG offices meet with HUD's regional directors to address areas of mutual concern. OIG is working with top program officials in developing a strategy to address and ultimately reduce fraud in HUD programs and operations. Emphasis is placed on communication and cooperation in working together to address weaknesses in HUD programs.

1. IMMEDIATE OFFICE OF THE INSPECTOR GENERAL

The Inspector General reports directly to the Secretary and the Congress, and has authority to inquire into all program and administrative activities of the Department. Inquiries are designed to provide constructive advice for Departmental management, to promote economy and efficiency in the administration of HUD programs, and to prevent and detect waste, fraud, and abuse in HUD programs and operations. Currently, the Inspector General serves as the President's Council on Integrity and Efficiency (PCIE) Chair of the Investigations Committee and oversees the Inspector General Academy.

2. OFFICE OF LEGAL COUNSEL

The OIG Office of Legal Counsel (OLC) is responsible for providing the full range of independent professional legal services and advice with respect to the formulation, coordination, revision, and execution of the OIG program. Specifically, OLC Attorneys:

- Render oral and written legal opinions and provide legal advice to the IG, OIG staff, and Auditors and Special Agents;
- Review and comment on existing or proposed legislation and regulations;
- Draft proposed legislation and regulations in conjunction with OIG audit and investigative activities;
- Materially assist in the preparation and prosecution of criminal and/or civil fraud cases referred by or affecting the OIG;

Office of Inspector General

- Oversee and assist in the preparation, issuance, and enforcement of subpoenas required during an audit, investigation, or other activity;
- Conduct the litigation of Merit Systems Protection Board proceedings initiated by the OIG staff as a consequence of administrative decisions by OIG managers;
- Represent the OIG staff at legal proceedings related to audits, investigations, or other OIG activities;
- Represent the IG and OIG staff in discussions with other components of the Department;
- Provide legal advice on requests received by OIG pertaining to the Freedom of Information Act (FOIA) and the Privacy Act; and
- Provide other legal assistance to the IG as requested.

3. OFFICE OF AUDIT (OA)

a. Employment and Responsibilities

The Office of Audit plans and conducts reviews of Departmental activities and operations that include: (1) Headquarters programs and operations, and the activities of approximately 80 HUD field offices; (2) hundreds of HUD programs and initiatives; and (3) thousands of contractors and program participants doing business with the Department. HUD's non-FHA/Ginnie Mae net program costs were over \$41 billion in fiscal year 2004. In terms of Federal exposure, HUD is one of the largest Federal agencies because of FHA insurance activities. FHA insures over \$100 billion in mortgages annually with an outstanding mortgage insurance portfolio of approximately \$500 billion. There are some 45,000 organizations delivering HUD programs nationwide. Audit's significant workload is generally divided into three primary categories.

1. Performance Audits are reviews of the efficiency and effectiveness of selected HUD management and program operations. These audits are directed at determining the adequacy of management controls and minimizing program risks. These audits are focused on assuring that housing assistance programs are handled efficiently and effectively. Performance audits also include reviews of the records and performance of those organizations receiving financial assistance or benefits from the Department, such as various state and local government grant recipients and sub-recipients, multifamily owners and management agents of insured and assisted projects, mortgage lenders and borrowers, contractors, public housing authorities, and nonprofit sponsors. Performance audits are a means of ascertaining the degree of compliance with applicable statutes, regulations, and agreements under which Federal funds and other benefits are made available. The audits also examine the appropriateness of the disposition of funds granted, loaned, or claimed; and/or the adequacy of participant performance and results.

2. Financial Audits include financial statement and financial related audits of various HUD operations. The objective of these audits is to provide reasonable assurance that the entity's financial statements are free of material misstatements and are presented in accordance with generally accepted accounting principles. Financial-related audits include determination of whether financial information is presented in accordance with established or stated criteria, and whether or not the entity has adhered to specific financial reporting requirements established by law or regulation.

3. Advisory and Assistance Services include: (a) input to the legislative and regulatory processes; (b) technical advice and assistance to HUD management on programs and systems; (c) program research; (d) quality control reviews of non-Federal audits of HUD program activities; (e) audit finding resolution; (f) assistance to U.S. Attorneys in developing criminal and civil cases for prosecution; (g) reviews of Hotline and other types of complaints; (h) joint efforts with Investigation or program officials in detecting or preventing fraud; and (i) responses to requests for information or assistance from audit clients, including the OMB and the Congress.

b. Workload

Overview. The OIG's Semiannual Reports to the Congress continue to show significant audit results. Audit's long-range strategy is to perform audit work that assists the Department in addressing the President's Management Agenda. This Agenda includes many governmentwide issues that all Federal agencies must address as well as specific HUD management challenges. Both Audit and the General Accounting Office have identified specific HUD challenges related to the President's Management Agenda. The size and diversity of HUD programs has led to staffing and information systems challenges and resulted in a variety of material weaknesses identified by OIG audits. These weaknesses are compounded by the fact that many, if not most, of HUD's critical functions are being performed by outside entities.

To provide the best possible services to HUD management and the Congress, Audit will: (1) emphasize the review and oversight of legislative, regulatory and policy changes resulting from an ever changing HUD and program environment; (2) pursue ways to improve existing methods or suggest new methods of conducting HUD's business; and (3) focus greater attention on those major audit areas that will improve HUD's stewardship of Federal financial resources. Key efforts will include financial audits, information systems and performance reviews, and continued emphasis on combating fraud, waste and mismanagement in HUD programs.

Review and Oversight. In recent years, the Department has undergone major organizational changes that have fundamentally affected the way it conducts business. This has increased the workload in Audit significantly. Major changes have been made in the manner in which the FHA conducts its business. The Department has substantially increased FHA insurance limits and privatized its real estate-owned (REO) activities. The Administration of the Section 8 program has been placed with Contract Administrators. From an organizational standpoint, reductions in the level of program staff have resulted in greater reliance being placed on OIG audit work to assure that lenders, grantees, contractors, and other program participants are meeting program requirements and spending funds efficiently and effectively. Audit's plans to review HUD programs are consistent with the goals to increase home ownership, help homeless families and individuals achieve housing stability, improve the safety and quality of public housing, and make affordable rental housing available for more low-income households. With the current reductions in HUD program staff, reviews of regulatory and policy changes have taken on greater importance. As a result, Audit focuses its efforts on evaluating the features and objectives of various program operations with the aim of recommending ways to maximize results with Federal expenditures.

Audit Emphasis. OA work has shown that some of the most vulnerable program and operational areas in the Department include: the timely development and implementation of information systems; single-family loan origination and property disposition; erroneous payments in HUD's low-income housing assistance programs; Public Housing Authority (PHA) management and operations; enforcement of program rules and regulations, including an increased emphasis on violations of housing quality standards; and the effective use of HUD's human capital.

The following are some of our traditional workload measurements for 12 months ending September 30, 2004.

• Audit Memoranda Issued	23
• Internal Audit Reports Issued.....	20
• External Audit Reports Issued	81
• Collections from Audit Activities.....	\$22.8 million
• Questioned Costs on Audits Issued.....	\$154.9 million
• Recommendations that Funds be put to Better Use	\$2.3 billion

Audit's strategy is to: (1) continue assessing the Department's efforts to address the President's Management Agenda with emphasis on the adequacy and reliability of financial and information systems; (2) continue to be as responsive as possible to audit

requests from Congressional Committees; (3) continue assessing Departmental staffing levels for adequacy in complying with legislative mandates; (4) track the Department's efforts to lower FHA mortgage foreclosure rates as well as efforts to deter mortgage fraud; (5) identify Section 8 fraud, working in collaboration with the Office of Investigations; (6) continue completing a timely and comprehensive audit of HUD's Annual Financial Statements; (7) continue assessing the Department's implementation of the GPRA; and (8) recommend actions that maximize electronic methods for identifying program fraud and abuse in low-income housing programs.

Our potential audit universe continues to expand with the growth of HUD activity, especially in FHA's insurance operations. Additionally, the Congress has increasingly tasked Audit with legislated audit work. Much of the additional work in the last 3 fiscal years was in response to the Congress. For example, the Appropriations Committee tasked OIG with audit responsibility for the \$2.7 billion in disaster assistance funding being provided to New York City as a result of the terrorist attacks of September 11, 2001. The task involved reporting every 6 months. Additionally, OA examined empowerment zones, Multifamily Housing Restructuring, HUD hiring decisions, the San Antonio Housing Authority, the National Housing Group, and the Office of Federal Housing Enterprise Oversight based on Congressional requests. The Congress has continued this trend. The fiscal year 2005 Appropriation Act (House Report 108-674) directed HUD-OIG to increase its audit and investigative efforts related to Public Housing Agency's administration of Section 8 voucher program. Accordingly, OA has established a goal to perform 20 such audits in fiscal year 2005.

In addition to the HUD-specific mandates issued by the Congress, all OIGs must meet several governmentwide legislative mandates annually. The two most significant requirements are the financial audits required by the Chief Financial Officers Act and the review of information security policies required by the Federal Information Security Management Act (FISMA). More recently, Section 522 of the Consolidated Appropriations Act of 2005 requires IGs to contract with an independent third party to conduct an independent, third-party review of the agency's use of personally identifiable information, as well as privacy and data protection procedures.

The OIG's audit plan targets the following major areas of emphasis where the work can be of greatest value to the Department and the Congress:

- Information System Audits. The work of the Information Systems (IS) Audits Division has become increasingly important as the Department expands the use of information technology for program delivery with a reduced staff. The areas of focus are financial and systems audits, consultation on system controls, and technical assistance.
- Financial and Systems Audits. A considerable portion of the IS work is devoted to supporting mandated Financial Statement Audits by reviewing the general and application controls of automated financial systems. Another IS audit priority involves assessing HUD's entitywide information security policies and plans, including security management structure and the roles and responsibilities of security personnel. This work mandated under the FISMA involves more extensive testing of security measures.
- Consultative Work. The IS Audit Division has been assisting the Department in establishing controls and standards for error prevention; efficient and effective operations; and deterrents to fraud or abuse during costly system development efforts.
- Technical Assistance. The IS Audit Division also provides technical support to other OIG Auditors and Investigators. This work includes retrieving and analyzing data from HUD systems, advising field Auditors on automated tools for use in their work, and obtaining computer-based evidence for investigative purposes. Work in this area has increased significantly because of growth in e-business and the expanding use of Computer Assisted Audit Techniques in completing audits.
- Performance Audits. A major part of our staff time is spent conducting audits of high-risk programs and program participants. With a multitude of diverse programs in the Department, there are of thousands of potential audit entities. As each of these assignments is planned, Audit will maintain its focus on items in the President's Management Agenda. For example, the examination of staff resources, financial performance, and systems will be an integral part of each assignment. Some of the more critical audit areas include:

Office of Inspector General

- Strategic Management of Human Capital in HUD Business Operations;
 - Single-Family Mortgage Origination and Servicing Practices;
 - Property Disposition Activities for Real Estate Owned Properties;
 - Budgeting and Planning for Information Technology Operations;
 - Insured Multifamily Operations;
 - PHA Operations and Modernization;
 - Troubled Housing Authorities;
 - Assessing the Physical and Financial Conditions of HUD Projects;
 - Administration of Low-Income Housing Assistance;
 - CDBG Grantees and Sub-grantees;
 - Homeless Program Providers; and
 - Technical Assistance.
- Financial Audits. For fiscal year 2006, Audit will continue to complete most of the consolidated financial audit of the Department using its own staff resources. This audit has enabled the OIG to better grasp the major problems facing the Department, thereby enabling us to target its remaining audit resources on areas of greatest risk. Part of the President's Management Agenda is to improve financial performance and to develop reliable financial management systems. OIG's financial audits help in attaining these goals. Another benefit of the financial audit is that it enables Audit to evaluate internal controls as a measure of HUD's progress in identifying and solving its management challenges. The Financial Audits Division conducts this audit with staff assistance from all of OIG's regional offices and the IS Audit Division. Additionally, Audit contracts with independent public accountants to assist in the audits of the financial statements of both FHA and the Ginnie Mae.

4. OFFICE OF INVESTIGATION (OI)

a. Employment and Responsibilities

OI is responsible for the development and implementation of investigative activities focusing on the detection and prevention of fraud and abuse in connection with HUD programs and activities. Special Agents and Forensic Auditors assigned to three Headquarters Divisions and Eight Regional Offices are responsible for conducting a variety of investigations in all HUD program areas, including OIG and Departmental employee misconduct allegations. These investigations produce criminal prosecutions, filings of civil complaints, and/or administrative sanctions. In carrying out these responsibilities, OI works closely with other Federal, state, and local law enforcement agencies to form partnerships designed to benefit from the pooling of resources. Such relationships formed the basis for many successful joint investigations.

Headquarters personnel, through the Criminal Investigations Division (CID) and the Investigative Support Division (ISD), direct the activities of eight regional offices. A Special Investigations Division (SID) answers directly to the Assistant Inspector General for Investigation (AIGI). SID is responsible for conducting sensitive Internal Affairs investigations, Departmental employee misconduct investigations, inspections of OIG investigative offices, assignments made to OI by the Integrity Committee of the President's Council on Integrity and Efficiency (PCIE), and the PCIE Qualitative Assessment Reviews of the investigative operations of the OIG, as required by Section 812 of the Homeland Security Act. The Special Agent in Charge of each Regional Office, CID and ISD are responsible for overseeing investigations within their respective jurisdictions, and all report to the Deputy AIGI, who reports to the Assistant Inspector General for Investigation.

Office of Inspector General

As a result of Strategic Planning efforts, OIG has decided to institute an Inspections and Reviews function. This group will conduct independent inspections of HUD programs and operations. It will also participate in collaborative studies and projects with HUD program staff. The inspections unit will also conduct research into OIG databases to develop insight to improve effectiveness and efficiency. It is currently evaluating and validating social security numbers associated with HUD programs to determine proper eligibility. An evaluation of the HUD Information Technology Service (HITS) contract will be initiated this year also.

b. Workload

OIG's Semiannual Reports to the Congress continue to show significant results from its investigative efforts. The following is a summary of investigative results for fiscal year 2004.

INVESTIGATIVE RESULTS - 2004				
ARRESTS	INDICTMENTS	CONVICTIONS/ PLEAS/PRE- TRIAL DIVERSIONS	INVESTIGATIVE RECEIVABLES/ RECOVERIES a/	SUSPENSIONS /DEBARMENTS OF PERSONS/ FIRMS DOING BUSINESS WITH HUD
2,482	1,442	773	\$380,486,439	1,242

a/ Receivables and recoveries, paid to the Department of Justice and collected by that agency, are based on the total dollar value of: (1) criminal cases—the amount of restitution, criminal fines, and/or special assessments based on a criminal judgment or established through a pretrial diversion agreement; (2) civil cases—the amount of damages, penalties, and/or forfeitures resulting from judgments issued by any court (Federal, State, local, military, or foreign government) in favor of the U.S. Government or the amount of funds to be repaid to the U.S. Government based on any negotiated settlements by a prosecuting authority or the amount of any assessments and/or penalties imposed, based on actions brought under the PCFRA, civil money penalties, or other agency-specific civil litigation authority, or settlement agreements negotiated by the agency while proceeding under any of these authorities; and (3) voluntary repayments—the amount of funds repaid on a voluntary basis or funds repaid based on an agency's administrative processes by a subject of an OIG investigation or the value of official property recovered by an OIG during an investigation before prosecutive action is taken, any of which result from a case in which an OIG has an active investigative role.

Governed by the OIG Strategic Plan, the OI maintains an aggressive caseload of white-collar fraud investigations. While other agencies, the FBI to some extent, and other OIG Offices and the Office of Audit have participated in joint investigations, in over 70 percent of our cases, the OIG independently investigates allegations of fraud against HUD programs with no support or partnership with other agencies. All of our investigations aim to identify and prosecute abusers of HUD programs, recover Federal funds, deter others from committing illegal acts against HUD, and restore public confidence in the integrity of HUD programs. It is anticipated that the FBI will continue to reallocate resources from economic and governmental fraud investigations to their current priority of matters involving national security, thereby participating to an even lesser extent in joint cases with OIG.

Financial fraud investigations involve highly sophisticated and complex financial schemes perpetrated in an automated environment by educated and motivated individuals utilizing business entities operating in multiple jurisdictions, including internationally. Our investigations involve money laundering and the use of numerous bank accounts to move money. In order to adequately address the challenges of collecting evidence, building link analysis, and data mining HUD systems, OIG established a

forensic and data retrieval capability, which will serve the need of both the Office of Audit and Office of Investigation. The computer forensic function is under the direction of the OI and the data retrieval function is under the direction of OA. Together, both functions provide technology assistance and computer forensic support to Agents conducting complex fraud investigations that frequently require the search, seizure and evaluation of electronic evidence. Because of our continuing need for financial intelligence OIG has detailed one FTE to the Department of Treasury, Financial Crimes Enforcement Network (FINCEN), to address OIG's workload requests to FINCEN for financial information relative to money laundering, financial fraud investigations, and link analysis of entities, events, and funds.

c. Fugitive Felon Initiative

Section 903 of Public Law 104-193, signed into law in 1996, is titled "Elimination of Housing Assistance with Respect to Fugitive Felons and Probation and Parole Violators." This law allows for the immediate termination of tenancy of a public housing tenant if the tenant is fleeing to avoid prosecution or confinement after conviction for a felony, or is violating a condition of parole or probation imposed under Federal or State law. The law also authorizes the exchange of information with law enforcement agencies to allow for data matches.

Currently, HUD provides for approximately 4.8 million households in public housing through Section 8 rental assistance and multifamily units. The latest data shows the average Federal spending per subsidized unit is \$412 per month. Reducing overpaid rent subsidies is one of HUD's management improvement goals in the President's Management Agenda, as well a goal in OIG's Strategic Plan. Identification and termination of individuals in a fugitive status fleeing felony prosecution or probation and parole violators may impact subsidies.

OIG began a Fugitive Felon initiative in fiscal year 2003 based in part on an inquiry by GAO, who questioned OI about our lack of enforcement of this Public Law. During fiscal year 2004, OI continued to ramp up the Fugitive Felony Initiative created in fiscal year 2003. OI derives cases by matching National Crime Information Center (NCIC), U.S. Marshals Service, or respective State crime data with HUD housing assistance data. OI proposes to establish data sharing agreements with various States and continues to utilize our data mining audit function to run monthly matches of U.S. Marshals Service data. Since inception of the Fugitive Felon Initiative, OI has opened 547 cases, closed 457 cases, and from these cases, 1,221 arrests have occurred.

d. Low-Income Housing Assistance

The President's Management Agenda contains five governmentwide initiatives to improve government performance and five HUD-specific initiatives to correct long-standing Departmentwide weaknesses. In HUD's fiscal year 2001 Performance and Accountability Report, HUD estimated \$978 million in subsidy overpayments attributed to tenant underreporting of income. That projection was derived from a review comparing earned and unearned household income reported to public housing authorities, project owners and management agents, to income data from the Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. Underreporting of income or any other false entry or statement used to acquire a housing subsidy violates HUD rules and may also meet the elements of a criminal violation. In fiscal year 2003, GAO listed rental subsidy overpayments as one of the Department's major material weaknesses. In fiscal year 2003, OIG adapted a strategy for addressing the problem using a systematic, multidimensional approach that not only addressed the individual cases referred to OIG, but called for a partnership with the Department to reduce overall problems, including a tenant integrity program. HUD's Section 8 program provided more than \$22 billion in rental assistance payments to low-income households in fiscal year 2004. HUD administers its Section 8 program in two parts. In general, HUD's Office of Public and Indian Housing (PIH) manages the tenant-based portion of the program, while HUD's Office of Housing manages the project-based portion.

During fiscal year 2004 through cooperative planning with the Department, OI is accepting referrals from the Rental Housing Integrity Improvement Program (RHIIP). Additionally, under a massive outreach initiative, OI has made direct contact with the Executive Directors of major housing authorities in New York, Illinois, Virginia, Texas, and the District of Columbia to develop proactive cases. OIG Special Agents in Charge in all eight Regions continue to make Section 8 housing assistance fraud, committed by the tenant, the Section 8 administrator, management companies, or PHA employees, an investigative priority. Included in the initiative is an ongoing effort for OIG personnel, including the Inspector General, to meet with Executive Directors of housing authorities,

Office of Inspector General

provide training seminars for the identification of fraud, and develop liaison for referrals. This grassroots-approach has proved, thus far, to be beneficial and has been embraced by PHA officials

OI has engaged in major Section 8 and fugitive felon sweeps in public and assisted housing developments in all Regions. OIG targeted one development that had 60 percent of the tenants committing housing fraud. In response to the initiative, OI opened 756 Section 8 cases during fiscal 2003 and opened 809 cases during fiscal year 2004. This initiative comprises approximately 44 percent of OI's work. OI has received support for this effort from the Department of Justice and Housing organizations.

e. Single Family Mortgage Fraud

In fiscal year 2003, OI reallocated resources from the violent crime initiative to white collar crime with emphasis on FHA single-family mortgage fraud. During fiscal 2003 and continuing in 2004, an aggressive training initiative was established. Courses were designed to train agents and auditors in the techniques needed to conduct investigations of property flipping, predatory lending, and loan origination fraud. In addition, courses were developed to re-acquaint agents with the procedures for investigating and filing civil claims and Program Fraud Civil Remedy Act cases.

FHA single-family loan origination fraud was the investigative priority for fiscal 2003 and consumed approximately 60 percent of our workload resources. Moving into fiscal year 2004, with the commencement of the Low-Income Housing Assistance initiative, single-family mortgage fraud cases have dropped to approximately 27 percent of OI's work. In the past, OIG conducted major single family cases nationwide with our law enforcement partner, the FBI. During fiscal year 2004 and more so in fiscal year 2005, the FBI has withdrawn from conducting cases with OIG because of their terrorist investigative priorities.

For fiscal year 2005 and 2006 single-family will continue to be an investigative priority. Our work will focus on various frauds perpetrated by title companies, loan officers, mortgages companies and brokers, real estate agents and brokers, closing attorneys, appraisers, builders, and nonprofit entities, who, through a variety of schemes, submit fraudulent loan applications, appraisals, and other falsified documents and use straw-buyers, forgers, equity skimmers, and co-conspirators to engage in extensive fraud schemes. OIG will focus on the filing of false bankruptcy petitions and violations of the Real Estate Settlement and Procedures Act (RESPA).

Investigative efforts on single family cases for fiscal year 2004 resulted in 1,451 judicial actions and \$334,987,356 in investigative recoveries, which was 24 percent of OI's total judicial actions for all programs and 86 percent of OI's total recoveries for all programs.

Included in our efforts to address FHA mortgage fraud through our outreach initiative to the industry is the creation of Mortgage Fraud Task Forces. OIG employees have met with industry officials, through industry associations, to provide an avenue for fraud education and referral of irregularities discovered by the various components in the real estate and mortgage industry.

f. Joint Terrorism Task Forces (JTTF)

The HUD Office of Investigation, located in the World Trade Center, New York, was destroyed in the terrorist attacks of September 11, 2001. Immediately following the attacks, OIG joined the New York JTTF and provided assistance to the FBI in gathering evidence at the crime scene, interviewing persons of interest, providing security, and participating in the Staten Island Landfill evidence recovery team. Ten days after the attack, HUD OIG provided 20 Special Agents for an 18-month detail as Federal Air Marshals. Very shortly thereafter, OIG was engaged in all of the JTTFs that had been established in various cities. Our function was to provide the critical link between the task force and "persons of interest" who may be participating in HUD programs. As the war on terrorism continued, with the development of intelligence centers and the creation of a Homeland Security Department, the fact that OIG's resources had to concentrate on rebuilding its New York office, and because the FBI did not need our immediate assistance any longer, OIG withdrew from active participation in the JTTFs. In recent months, OI has engaged, again, with the JTTFs because of specific requests made by the FBI. Although our resources will not allow full-time participation in all JTTFs, OIG is actively engaged to the extent its resources will allow.

5. OFFICE OF MANAGEMENT AND POLICY (OMAP)

a. Employment and Responsibilities

The OMAP provides OIG wide administrative support, including budget and financial management, strategic planning, human resources management, employee training, internal policy development, Information Technology (IT) and automated office support services, reports preparation, and records management. This office oversees the OIG Internal Management Assessment Program, the OIG Hotline operation, and is instituting an outreach program to promote fraud awareness and training for HUD staff and program administrators. The OMAP is responsible for Equal Employment Opportunity, Alternative Dispute Resolution and Ombudsman functions. OMAP also coordinates the Continuity of Operations Plan activities for the OIG, as well as an Inspections and Evaluations function.

b. Workload

OMAP is the OIG focal point for providing streamlined support to OIG and developing policies and procedures, particularly those related to administrative programs and human resources. OMAP has undertaken a major initiative to issue new or updated policies and guidance in these two areas. OMAP also conducts the OIG Internal Management Assessment Program that measures OIG wide compliance with professional audit and investigative standards and administrative policies. This program involves a comprehensive evaluation of one Region each quarter for four evaluations per year, so that each Region is evaluated at least once every 3 years. As mentioned above, OMAP is responsible for the Hotline function and its 6 FTEs. Over the last 2 years, the Hotline staff has received, processed, and evaluated over 21,000 inquiries/complaints per year.

OMAP recently created a Program Integrity Division, which provides leadership and works with Departmental staff to find ways to prevent waste, fraud, and abuse in HUD programs. The division is working to develop fraud prevention bulletins and update fraud training material. This Division also handles the OIG Fraud Outline.

Since fiscal year 1999, the OIG has outsourced its automation services to a contractor under a concept called seat management. As part of an overall effort to enhance mission performance, the OMAP Information Technology (IT) staff has made significant progress in providing access to HUD databases and applications directly from seat management computers. Through a User Advisory Group with representation nationwide, the IT staff has implemented system changes quickly in response to user concerns. The IT staff provides infrastructure support in the many HUD/GSA mandated moves of nationwide offices, and through the use of emerging technology, has brought to fruition a truly mobile "office anywhere" environment. This environment allows auditors and investigators to connect to the OIG network directly from an audit/investigative site, and includes access to secure OIG e-mail via the worldwide Internet and through the use of wireless handheld devices. In addition, the hiring of an IS Security Manager has strengthened the security and integrity of the OIG network.

Currently, the OIG is pursuing a Management Reporting Database (MRD) to enhance reporting capabilities of its automated business processes for Audit and Investigations in order to provide senior managers with the information they need for effective decision-making in audit and investigative management. The workflow applications originally deployed in conjunction with seat management were designed as audit/investigation work tools, which were not optimized for management reporting. OIG needs a system that meets the broad reporting requirements of OIG to include current performance measures, GPRA, and Semiannual Reports to Congress. The current MRD, which houses reporting capabilities for audit/investigation data, will be enhanced over time to include data reporting capabilities for timekeeping, contracts, budgets, hotline, task tracking, COOP data, training and employee data. With a well-designed MRD, OIG will be able to respond quickly and effectively to requests from any source.

The OIG oversees an agreement with the U.S. Department of Treasury, Bureau of Public Debt (BPD), to provide human resources and procurement services. Outsourcing these functions has enhanced OIG mission performance while preserving its independence from the Department. Moreover, it has allowed the OIG to devote a high percentage of its limited resources to primary mission activities. In addition, the OIG does not have to compete with other Departmental offices for resources in these areas. As a result, OIG can devote its limited support staff to policy development, advice and guidance, and contract oversight.

Office of Inspector General

The OIG's extensive budget and administrative services, reports preparation, and records management activities are conducted in-house with a small staff that oversees OIG operations in Headquarters as well as in the ten Regions and associated outlying offices across the United States and Puerto Rico.